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SUBJECT: WORKING TO CLARIFY THE IAEA'S POLICY ON PROGRAM
SUPPORT COSTS

REF: A. UNVIE 80
[B](#). UNVIE 27
[C](#). 08 UNVIE 587

[1](#). (SBU) Summary: The IAEA has made progress on the issue of Program Support Costs (PSCs) with the recent release of an official policy that addresses some - but not all - transparency issues raised by the U.S. and Geneva Group (reftels). Ambassador met with IAEA officials to define these issues and help move the IAEA toward an acceptable policy that will allow U.S. extrabudgetary contributions to flow unhindered. Ambassador also raised other U.S. management reform objectives, including whistleblower protections, the establishment of an audit committee, the release of Joint Investigative Unit reports, and an ethics office. Mission awaits the IAEA's response to our questions on the PSC policy, with a view to moving toward reconciliation. End Summary.

Program Support Costs (PSCs)

[2](#). (SBU) Following up on the February release of a Secretariat Directive on Program Support Costs (PSCs), Ambassador Schulte presented IAEA Deputy Director General David Waller April 2 with a set of questions to help clarify the policy. The questions focused on three major areas of concern: 1) how PSCs will be treated in the budget and allocated among the programs, 2) how PSCs will be applied to the approximately two dozen Cost-Free Experts funded by the U.S., and 3) the application of PSCs to safeguards activities, despite Regular Budget provisions for the Member State Support Program.

[3](#). (SBU) Regarding the treatment of PSCs in the budget, IAEA Budget Director Gary Eidet explained that the funds are registered in the Agency's accounts, amounting to over seven hundred million Euros for 2008 and anticipated to rise to two million Euros annually. The revenue will be farmed out to the various support units based on the proportion of work each office dedicates to supporting voluntary programs (budget, human resources, legal affairs, procurement, etc.). The Director General makes the final determination on how the funds are disbursed.

[4](#). (SBU) On Cost-Free Experts (CFEs), Waller and Eidet agreed to look into the possibility of a flat charge (rather than charging a variable, 7 percent on each CFE's salary). This would allow the U.S. to pay the same amount on each of the

approximately two dozen American CFEs donated to the Agency. Eidet also agreed that the U.S. would be granted a PSC "credit" for CFEs donated to support programs. (Mission will ask for written verification of this offer.) Waller and Eidet appeared unfazed by the observation that PSCs charges on CFEs could ultimately cut into the number of CFEs supported by the U.S.

15. (SBU) Waller and Eidet denied that Member State funding for the Safeguards Support Program covered the full range of central services provided by the Agency to Major Program 4 (Verification). They also denied any inequity attached to the PSC exemption for contributions to the Technical Cooperation Fund in Major Program 6 (Technical Cooperation). They argued that because the Fund is subject to a scale of assessments levied against all Member States, these contributions are viewed and treated differently from unilateral donations to a program of special concern to one Member State.

16. (SBU) Waller and Eidet gave no indication they would revisit or reissue the Secretariat Directive on PSCs, but Eidet offered to respond to the set of specific issues raised by the U.S. (Mission will follow up with Eidet and relay the response.)

Management Reform Issues

17. (SBU) Ambassador also presented Waller a set of top U.S. objectives for IAEA management reforms, including whistleblower protections, the establishment of an audit

committee, the release of Joint Investigative Unit reports, and establishment of an ethics office. Waller claimed he was pursuing a policy for whistleblower protections through his chairmanship of the Joint Advisory Committee (JAC), and that he hoped to achieve approval of a policy in the coming months. The news was less positive regarding Waller's efforts to set up a framework for an audit committee, an effort that had been truncated by Director General ElBaradei.

At the Ambassador's behest, Waller promised to revisit the issue with ElBaradei, noting Geneva Group consensus on audit committees would support the effort. (Note: In a separate conversation, Msnoff learned that the IAEA's external auditor, from Germany's Federal Audit Chamber, dismisses creation of an IAEA audit committee as redundant. End Note.)

18. (SBU) On ethics, Waller noted that the IAEA had made strides in ethics training, financial disclosure, and the identification of four ethics counselors. He said, however, that an actual ethics office had not been established "for financial reasons." Regarding the release of JIU reports, Waller and Eidet regretted the perception that the IAEA secretariat had withheld JIU reports. They proposed circulating them to Member States via the intranet site "govatom."

Comment

19. (SBU) We may have gotten the best we can extract for now in our quest to secure an equitable policy on PSCs. While the release of an official policy is a major step toward transparency, the exemption issued for the nearly 100 million USD donated each year by Member States to the Technical Cooperation Fund still appears to constitute a politically-motivated carve-out for G-77 countries rather than an exercise in good governance. On the other hand, given the sacred status of TC funding among developing countries, we should avoid a situation where we make perfect the enemy of good. For example, the Secretariat indicated greater flexibility on charges for Cost-Free experts and a more comprehensive explanation of how PSC revenues will be budgeted and allocated. With these issues still in play, Mission will continue working with the Secretariat to achieve a level of comfort with the PSC policy that will allow for the renewed flow of extrabudgetary contributions to the IAEA.

We recognize the concern enunciated by DOE and NRC participants in the IAEA's recent nuclear security seminar that the PSC debate could jeopardize U.S. programs to strengthen the IAEA's critical nuclear terrorism activities, and would like to put this budgetary debate behind us as soon as possible. End Comment.

SCHULTE